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Could healthcare reform be a game changer for U.S. self-employment? Evidence from Massachusetts

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The U.S. self-employment rate—that is, self-employment as a proportion of total employment—has been declining since the 1990s. Although no single factor could fully explain this downward trend, researchers have pointed to the self-employed's limited access to affordable health insurance as a key contributor. High insurance costs could either force workers to leave the self-employment sector or deter them from joining it. However, with the far-reaching reforms introduced by the Patient Protection and Affordable Care Act (PPACA), some think a change may be on the way.

In their article "Does health-care reform support self-employment?" (Federal Reserve Bank of Kansas City, *Economic Review*, third quarter 2014), economists Didem Tüzemen and Thealexa Becker share this view, suggesting that the expanded health insurance access secured by PPACA could put U.S. entrepreneurial activity on firmer footing. Because the act's full implementation is still a year away, the authors use the Massachusetts Health Care Reform Act of 2006 as a test case, examining its effects on state self-employment and then drawing broader conclusions about the possible national implications of PPACA. Indeed, the two laws exhibit important similarities: both provide for individual and employer mandates, expansion of Medicaid, antidiscrimination rules for insurers, and health insurance exchanges with subsidized coverage options.

Tüzemen and Becker recognize that, in theory, the effects of these core legislative provisions on self-employment are not clear-cut. On the one hand, by lowering insurance costs and providing more health insurance options, subsidized exchanges and expanded public programs may encourage workers to join (or remain in) the ranks of the self-employed. On the other hand, the threat of financial penalty posed by individual and employer mandates may do the reverse, either by raising the costs for noncompliant business owners or by increasing the number of jobs with employer-provided health insurance. Since the net result of these opposing effects cannot be determined analytically, the authors treat the puzzle as an empirical one.

After examining data from the 1996–2013 Current Population Survey Annual Social and Economic Supplement, Tüzemen and Becker offer two main observations. First, they note that, following Massachusetts' healthcare reform, the state's labor market saw sharp declines in uninsured rates. From the pre-reform period (2000–2005) to the post-reform period (2008–2012), the average uninsured rate for the self-employed dropped by 10 percentage points statewide, compared with a 5-percentage-point increase nationwide and a 2-percentage-point increase for other Northeastern states combined. Likewise, between 2006 and 2012, the share of people ages 16 to 64 without insurance declined by 9 percentage points in Massachusetts and increased by 1 percentage point nationally.

The authors also observe that the healthcare legislation likely propped up the state's self-employment rate. While self-employment as a proportion of total employment declined by about half a percentage point at both the national and regional levels from 2004–2006 to 2010–2012, the share remained roughly unchanged in Massachusetts, at just below 6 percent. The same general pattern holds if the self-employment rate is calculated on the basis of the population ages 16 to 64, whose rate is less influenced by the business cycle.

Inferring from the experience of Massachusetts and taking into account the similarities between the two healthcare laws, Tüzemen and Becker expect that PPACA, once fully implemented, stands a chance of mirroring the patterns surrounding the state legislation. Specifically, they expect a decline in the uninsured rate among U.S. business owners and support for the national self-employment rate. Nonetheless, the authors are cautiously optimistic. They acknowledge that the relationships reported for Massachusetts are not conclusively causal and that further, more extensive empirical investigations should ascertain causation. In addition, differences between the two healthcare laws, along with continuing difficulties in reform implementation, may result in national-level outcomes different from those observed at the state level.